

IMPACT OF DIVIDEND POLICY ON PROFITABILITY OF SELECTED INFORMATION TECHNOLOGY COMPANIES IN INDIA

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ABSTRACT

Information Technology (IT) industry has played a major role in the Indian economy during the last few years. Over the past decade, IT has become one of the fastest growing industries in India. It has grown at a CAGR of 28% during last decades. IT sector has been chosen for study because it is a sunshine sector of India. The dividend payment pattern of IT companies has changed leaps and bounds over past few years. While taking these considerations taken into account, the relationship between the company's selected factors and the dividend payouts has been somewhat different but we do not know the determinants of the Indian IT companies' dividend payouts. To our knowledge, few studies regarding determinants of dividend payouts have been conducted in Indian context and they are not up to date. Thus, it would be interesting to investigate the issue to conduct a research regarding the relationship between a number of factors and the dividend payouts in the IT sector.

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INTRODUCTION

Each and every business needs finance to run smoothly. One of the ways to raise finance is by means of issuing shares to the public. The profit of a company is distributed to the shareholders as dividend. How much dividend is to be paid to shareholders is based on the dividend policy. The policies related to dividend are framed by the top management. The dividend policy will give a clear cut picture of what proportion of earnings is to be paid to shareholders and what proportion is to be ploughed back as retained earnings. Dividend policy decision is a very crucial policy decision as it influences the growth of the company

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and market value of its equity shares. As far as modern corporate finance is concerned, may create many issues. Many research has shown that dividend policy issues are unsolved and no solution is reached. Hence it is very important to study about the determinants of dividend policy.

1.1 Review of Literature

The previous literature assumed that there is a relationship between the firm's size and its dividend policy. The big size companies pay higher dividends and smaller size companies pay less dividends, as they find it difficult to raise funds, as compared to large companies who have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends. **Al-Twajry (2007)**, have found that the higher the return on equity, the greater is the firm's retained earnings for reinvestment or the lower is the dividend payout. Contrary to it, there are many studies which have proved that the profitability is positively related to the dividend payout ratio. Profitable firms with more stable net earnings can afford larger free cash flows and therefore pay larger dividends. The higher profitable firms pay higher dividends.

Aivazian, et al., (2003) has maintained that firms are more likely to raise their dividends if they are large and profitable. Raising dividends reduces the risk of future cash flows to the stockholder which increases stock price and the PE ratio. High PEs may be associated with low risk and higher payout ratios, whereas low PEs may be attributed to high risk and lower payout ratios. **Al-Malkawi (2007)** confirmed that the firm's financial leverage is significantly and negatively related to its dividend policy.

1.2 Need for the Study

Several studies have shown that many factors are contributing to the increase or decrease in dividend distribution decisions. Dividend is the cost to the equity capital contributed by large shareholders. Large scale companies are not started with a single person, it is the contribution of several investors with a view to earn profit and divide the same as per their share of capital contributed. While deciding what amounts to pay as dividend is always motivated by variety of factors. Dividends represent a distribution of the book surplus, accompanied by a distribution of assets, or by a change in the form of equities, or an increase in the liabilities of the corporation. Dividend policy is a crucial policy decision. It influences the growth of the company through retained earnings as well as the market value of its equity shares. Dividend payment directly enhances the wealth of shareholders whereas retained earnings maximize the wealth of company. The entire wealth of company belongs to shareholders, but the shareholders are highly anticipating dividend rather than wealth maximization. Therefore, a study on determinants of dividend policy will be a relevant decision in view of this phenomenon.

1.3 Statement of the Problem

In this study, it is tried to find out the dividend policy on profitability of selected IT companies in India. There is a standard policy followed by the companies for giving the dividends. It is thought that only successful companies pay dividend to their shareholders but now a day we can see that some successful companies don't give dividend. The company value is independent of dividend policy and it only depends on the earning power of the

company's assets and its investment policy. It industry plays a very important role in contributing to our economy. In the top ten leading companies, the second leading company is an IT company. This shows that how much growth is there in IT industry. IT sector is an ever green sector. For the past few years, we have seen huge ups and downs in the dividend pattern of IT companies. Hence an attempt is made to study about the determinant of dividend payout and the factor which are related to it. This study makes an attempt to find out the answer for the following questions.

1. What is the trend of dividend payment of Information Technology Companies in India?
2. What are the factors that are considered by decision makers while determining the dividend payment?
3. What association exists between dividend payout and firm profitability among IT companies in India?
4. What is the relationship between the dividend payout ratio and company's selected other explanatory factors among IT companies in India?
5. What is the extent of the association between dividend payout and firm profitability?

1.4 Objectives of the Study

1. To evaluate the applicability of Lintner model, a basic dividend model as well as the applicability of extended version of Lintner model in explaining the dividend policy of companies.
2. To establish the association between dividend payout and firm profitability among selected IT companies in India.

1.5 Scope of the Study

The corporate dividend policy and its determinants factors has been studied with reference to 27 selected information technology companies for the period 2005-06 to 2014-15. This study is mainly related to identify and determine the relative significance of various determinants having a bearing on the dividend policy decision of the sample companies with the use of multiple regression models both at the aggregate level and selected medium and large group classification levels.

METHODOLOGY

2.1 Universe

The universe of the study is considered as companies listed in the Bombay Stock Exchange (BSE) only because all the listed companies required following the norms set by Securities Exchange Board of India (SEBI) for financial reporting.

2.2 Sampling Frame

The sampling frame consist of companies belonging to Information Technology and to construct the data sample, all information technology companies in Prowess Database (27 companies) were taken into consideration.

2.3 Sampling Methods

The companies are selected using stratified sampling technique. Using this sampling technique, the companies are formed into groups called strata (medium and large) based on the Total assets of the companies based on 2014-2015

2.4 Unit of Observations

This study has been confined to 27 Information Technology companies which is further classified into Large and Medium Scale companies according to their respective total assets on the basis of Rs. 500 crore as large scale and rest of the companies as medium scale. The sample companies listed in Table 1.

Table – 1: Sample Companies

(Based on Total Assets as on 2014 – 15)

Sl. No.	Large Scale Company	Total Assets (Rs. Crores)	Sl. No.	Medium Scale	Total Assets (Rs. Crores)
1	NIIT	936.76	1	Infrasoft	81.11
2	Zensar	785.91	2	APTECH	79.18
3	Tanla Solutions	625.72	3	Take Solutions	316.55
4	Mindtree	2047.40	4	Subex	482.65
5	Infinite Computers	548.74	5	Saskin Comm Tech	453.51
6	Ratington	1651.27	6	Panoramic Univ.	315.14
7	Oracle fin. Serv	3066.06	7	Palred Technologies	89.01
8	Tech Mahindra	12821.10	8	Mintek India	169.40
9	Infosys	48098.00	9	Compuage	302.39
10	Hinduja Global	930.08	10	Geometric	399.26
11	Financial Tech	3280.98	11	Genesys Intell.	223.08
12	Allied Digital	797.76	12	Cyber Tech	80.30
13	3i Infotech	3323.51	13	Blue Star	107.91
			14	Accele India	293.80

2.5 Period of the Study

- The period of the study is from 2005-06 to 2014-15.

2.6 Tools Used

Mean, Standard Deviation, Range, Skewness, Kurtosis, Coefficient of Variation, Correlation and Multiple Regression are used for this study.

2.7 Hypothesis

1. The Size of the company has a positive effect on the dividend policy.
2. The profitability has a positive effect on the dividend policy.

3. Risk has a negative relationship with the dividend policy or PE ratio is positively associated with the Dividend payouts.
4. Leverage has negative effect on the dividend policy.
5. The Liquidity has a positive effect on the dividend policy

2.8 Limitations of the Study

1. For the present study, the required data of the sample companies is collected from “Capitaline Data Base”. Hence, the reliability of data is based on the accuracy of data in “Capitaline Data Base”.
2. The present study is undertaken only on IT sector companies in India. The findings of the study may not be applicable to other companies from other industries.

RESULTS AND DISCUSSION

The variables selected for the study includes (i) Dependent Variables - Dividend Payout Ratio (DPR) and (ii) Independent Variables - Dividend Payout Ratio (DPR), Return on Equity (ROE), Free Cash Flow (FCF), Liquidity (LIQ), Leverage (LEV), Risk and Growth.

3.1 Size

The previous literature assumed that there is a relationship between the firm's size and its dividend policy. The big size companies pay higher dividends and smaller size companies pay less dividends, as they find it difficult to raise funds, as compared to large companies who have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends.

3.1.1 Measure of Size

The Size of the firm is measured by the natural logarithm of the book value of the firm's Total Assets. (Joseph 2001)

Size (LTA) = Natural Log of Total Assets

3.2 Profitability

Previous researchers have found profitability as one of the most important determinants of dividend payout policy. However, the results on relationship of profitability and dividend payout have been mixed. As per the pecking order theory, the firms will prefer to rely more on internal funds or retained earnings as a result the firms will have a tendency of paying less dividend and hence having more retained earnings. Hence, the profitable firms will prefer lower dividends.

3.2.1 Measure of Profitability

The profitability has been measured by Return on Equity (ROE) = Net Profit after Preference Dividend/Number of Equity Shares outstanding

Return on Assets (ROA) = Net Profit / Total Assets

Earnings per Share (EPS) = Net Profit / Number of Equity Shares Outstanding

3.3 Risk

The P/E ratio implicitly incorporates the perceived risk of a given company's future earnings. A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E (Fama and French 1998, Puckett 1964). Raising dividends reduces the risk of future cash flows to the stockholder which increases stock price and the PE ratio. High PEs may be associated with low risk and higher payout ratios, whereas low PEs may be attributed to high risk and lower payout ratios.

3.3.1 Measure of Risk

The risk of the company has been measured by Risk = Price of Share/Earning per share ratio

3.4 Leverage

The empirical evidence regarding the relationship of leverage with dividend payout is mixed. The higher the leverage of the firm the lower is the dividend payout; this could be because of the debt covenants.

3.4.1 Measure of Leverage

The leverage has been measured with the help of following formula

Leverage = Short Term and Long Term Liabilities / Total Shareholder's Fund

3.5 Liquidity

The liquidity or cash flows position is another important determinant of dividend payouts. The firms with more liquidity are more likely to pay dividends as compared to the firms with a liquidity crunch. Dividend payments depend more on cash flows which reflect the company's ability to pay dividends. A poor liquidity position means less generous dividends due to shortage of cash. Liquidity has been measured by the following formula;

Liquidity = Current ratio (Current Assets/Current Liabilities)

3.6 Descriptive Statistics of Medium Scale IT companies

The table 2 provides the descriptive statistics of medium scale IT companies for all the variables. It shows the number of observations of all variables, their average value, Standard deviation, Range, Skewness and Kurtosis.

Table – 2: Descriptive Statistics – Variables Used in the Model

Variables	N	Mean	Std. Deviation	Range		Skewness	Kurtosis
				Min	Max		
Dividend Payout Ratio (DPO)	140	30.630	40.053	0.000	281.910	2.914	12.639
Return on Equity (ROE)	140	11.477	10.822	-10.090	57.200	1.161	2.280
Free Cash Flow (FCF)	140	18.932	22.080	-52.640	106.430	1.304	3.476

Liquidity (LIQ)	140	2.501	2.425	0.460	22.930	5.780	42.760
Leverage (LEV)	140	0.517	0.911	0.000	4.060	2.415	5.396
Risk	140	26.851	71.565	0.000	759.730	8.343	81.352
Growth	140	0.138	0.315	-0.879	1.459	0.826	2.657
Size	140	4.982	0.928	1.923	7.400	0.114	0.735

The dividend payout ratio of sample firms ranged from 0 to 281.910 with a mean ratio of 30.63 times and standard deviation of 40.053 which implies that high variations among the sample firms. The return on equity ratio of sample firms ranged from -10.090 to 57.200 with a mean ratio of 11.477 times and standard deviation of 10.822 which implies that low variations among the sample firms. The free cash flow ratio of sample firms ranged from -52.640 to 106.430 with a mean ratio of 18.932 times and standard deviation of 22.080 which implies that high variations among the sample firms. The liquidity ratio of sample firms ranged from 0.460 to 22.930 with a mean ratio of 2.501 times and standard deviation of 2.425 which implies that very low variations among the sample firms. The leverage ratio of sample firms ranged from 0 to 4.060 with a mean ratio of 0.517 times and standard deviation of 0.911 which implies that very low variations among the sample firms. The risk of sample firms ranged from 0 to 759.730 with a mean ratio of 26.851 times and standard deviation of 71.565 which implies that very high variations among the sample firms. The growth of sample firms ranged from -0.879 to 1.459 with a mean ratio of 0.138 times and standard deviation of 0.315 which implies that very low variations among the sample firms. The size of sample firms ranged from 1.923 to 7.400 with a mean ratio of 4.982 times and standard deviation of 0.928 which implies that very low variation among the sample firms.

3.7 Correlation Analysis

Correlation analysis was carried out to examine the presence of multicollinearity and strength of the relationship between variables are depicted in Table 3.

Table – 3: *Correlation Matrix of Medium Scale Companies*

Variables	R	Dividend Payout Ratio	Return on Equity	Free Cash Flow	Liquidity	Leverage	Risk	Growth	Size
Dividend Payout Ratio	R	1.000	-0.113	0.007	0.605*	-.258**	-0.021	-0.075	-0.156
	Sig.		0.186	0.934	0.045	0.002	0.808	0.378	0.066
Return on Equity	R		1.000	.356**	0.025	0.166	-.183*	.338**	-.261**
	Sig.			0.000	0.767	0.050	0.030	0.000	0.002
Free Cash Flow	R			1.000	-0.020	-0.164	-0.031	-0.031	.369**
	Sig.				0.818	0.053	0.715	0.717	0.000
Liquidity	R				1.000	-.232**	0.034	0.162	-0.038
	Sig.					0.006	0.687	0.057	0.653

Leverage	R	1.000	-0.074	0.092	.296**
	Sig.		0.382	0.281	0.000
Risk	R	1.000	-0.123	-0.023	
	Sig.		0.147	0.791	
Growth	R		1.000	-0.143	
	Sig.			0.091	
Size	R			1.000	
	Sig.				

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The study findings showed negative significant relationship between dividend payout ratio and leverage ($r = -0.258$, p value < 0.05). This implies that an increase in leverage decreased the company's dividend payout ratio. Secondly, there was a positive significant relationship between dividend payout and leverage among medium companies ($r=0.605$, P value < 0.05). This implies that a unit increase in liquidity increases dividend payment ratio. Thirdly, there was a positive relationship between dividend payout and free cash flow among medium scale companies ($r=0.007$, p value > 0.05) but statistically insignificant. Finally, Return on Equity (-0.113 , P value > 0.05), Risk ($r=-0.021$, P value > 0.05), Growth ($r=-0.075$, P value > 0.05) and Size ($r=-0.156$, P value > 0.05) were negative relationship found with dividend payout which is found to be statistically insignificant.

3.8 Regression Analysis

The strength of the relationship between the dependent variable return on assets and all the independent variables taken together of selected medium scale IT companies and the impact of these independent variables on the profitability are given in table 4. Regression analysis is used to test the impact of dividend payout on selected explanatory variables relating to profitability, liquidity, leverage and firm characteristics of the medium scale IT companies. As we mentioned in mode of analysis, a model was formulated and the results are summarized in the above Table 4.

Table – 4: Regression Model Summary of Medium Scale IT Companies

Sl. No.	Model	Multiple R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F-Value	P-Value
1	I	.514	0.698	0.051	3.026	1.213	2.159	.042

b. Dependent Variable: Dividend Payout Ratio

The specification of the selected explanatory variables such as ROE, FCF, LIQ, LEV, Risk, Growth and Size in the above model revealed the ability to predict dividend payout ($R^2 = 0.698$). In this model R^2 value of above mentioned explanatory variables denote that 69.8 % to the observed variability. The remaining 30.2 % are not explained, because the remaining part of the variance in explanatory variables is related to other variables which are not depicted in the model.

An examination of the model summary in conjunction with ANOVA (F-value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. Model created by the researcher is significant at 5% level of significance. F value is 2.159 and respective P value is 0.042 which is statistically significant at 5 percent level of significance. In this case it reveals that only DIVP has a significant impact on NPT at 5 percent level of significance. However, it should be noted here that there may be some other variables which can have an impact on profitability, which need to be studied. In addition to the above analysis Durbin-Watson test also carried out to check the auto correlation among the independent variables. The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non-autocorrelation. Model has the value is 1.213. This indicates that there is no auto correlation.

Working capital turnover ratio, current assets to total assets ratio and current liabilities to total assets both are significant at 5% level of significant. Working capital turnover ratio has β coefficient value of 0.077. This shows that 1-unit increase in working capital turnover will cause an increase of 0.077 units in return on assets, but this effect is significant.

Current assets to total assets ratio has a direct variation and significant relationship with return on assets. Its β coefficient is 0.437. Current liabilities to total assets ratio, current ratio, debt-equity ratio, leverage and size of the companies have an inverse relation with return on assets. Their β coefficients are -1.012, -0.008, -0.014, -0.123 and -0.016 respectively. Cash to current liability ratio has a direct relationship with return on assets. Its β coefficient is 0.004 and insignificant at 5% level of significance. An examination of the model summary in conjunction with ANOVA (F- Value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variable. Model summary are significant at 5% level of significance. F Ratio is 5.719 and respective Significance F is 0.000 which is statistically significance at 5% level of significance.

Table – 5: Correlation Test of Explanatory Variables – Large Scale IT Companies

		Dividend Payout Ratio	Return on Equity	Free Cash Flow	Liquidity	Leverage	Risk	Growth	Size
Dividend Payout Ratio	R	1	-.005	.018	.054	-.022	.779**	-.030	.064
	Sig.		.957	.840	.540	.807	.000	.732	.467
	N	130	130	130	130	130	130	130	130
Return on Equity	R	-.005	1	.207*	.081	-.132	.088	.466**	-.048
	Sig.	.957		.018	.360	.135	.319	.000	.587
	N	130	130	130	130	130	130	130	130
Free Cash Flow	R	.018	.207*	1	.263**	-.086	.023	-.023	.636**
	Sig.	.840	.018		.002	.329	.797	.796	.000
	N	130	130	130	130	130	130	130	130

Liquidity	R	.054	.081	.263**	1	-.142	.063	.144	.269**
	Sig.	.540	.360	.002		.108	.475	.102	.002
	N	130	130	130	130	130	130	130	130
Leverage	R	-.022	-.132	-.086	-.142	1	-.062	-.041	.082
	Sig.	.807	.135	.329	.108		.483	.646	.355
	N	130	130	130	130	130	130	130	130
Risk	R	.779**	.088	.023	.063	-.062	1	.075	.064
	Sig.	.000	.319	.797	.475	.483		.394	.471
	N	130	130	130	130	130	130	130	130
Growth	R	-.030	.466**	-.023	.144	-.041	.075	1	-.213*
	Sig.	.732	.000	.796	.102	.646	.394		0.0152
	N	130	130	130	130	130	130	130	130
Size	R	.064	-.048	.636**	.269**	.082	.064	-.213*	1
	Sig.	.467	.587	.000	.002	.355	.471	0.0152	
	N	130	130	130	130	130	130	130	130

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The study findings showed positive significant relationship between dividend payout ratio and risk ($r = 0.779$, p value < 0.01). This implies that an increase in risk increase the company's dividend payout ratio. Secondly, there was a positive significant relationship between dividend payout and free cash flow among large scale companies ($r = 0.018$, P value < 0.05). This implies that a unit increase in free cash flow increases dividend payment ratio. Thirdly, there was a positive relationship between dividend payout and liquidity among large scale companies ($r = 0.064$, p value > 0.05) but statistically insignificant. Finally, Return on Equity (-0.005 , P value > 0.05) and Growth ($r = -0.030$, P value > 0.05) were negative relationship found with dividend payout which is found to be statistically insignificant.

Table – 6: Descriptive Statistics – Variables Used for Lintner and Other Models

Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Dividend Payout Ratio	130	11144.490	85.030	11059.460	103.263	968.659	11.391	129.842
Return on Equity	130	107.610	-5.490	102.120	19.883	17.248	1.744	4.800
Free Cash Flow	130	12949.560	-176.690	12772.870	806.582	2163.213	3.815	14.844
Liquidity	130	11.730	0.150	11.880	2.509	1.746	2.177	6.823
Leverage	130	22.880	0.000	22.880	0.478	2.040	10.453	115.081
Risk	130	542.030	0.000	542.030	25.185	58.804	6.464	49.777

Growth	130	5.518	-0.704	4.815	0.278	0.644	4.719	28.541
Size	130	10.898	-0.117	10.781	6.979	1.536	-0.395	3.149

The dividend payout ratio of sample firms ranged from 85.030 to 11059.460 with a mean ratio of 103.263 times and standard deviation of 968.659 which implies that very high variations among the sample firms. The return on equity ratio of sample firms ranged from -5.490 to 102.120 with a mean ratio of 19.883 times and standard deviation of 17.248 which implies that low variations among the sample firms. The free cash flow ratio of sample firms ranged from -176.690 to 12772.870 with a mean ratio of 806.582 times and standard deviation of 2163.213 which implies that very high variations among the sample firms. The liquidity ratio of sample firms ranged from 0.150 to 11.880 with a mean ratio of 2.509 times and standard deviation of 1.746 which implies that very low variations among the sample firms. The leverage ratio of sample firms ranged from 0 to 22.880 with a mean ratio of 0.478 times and standard deviation of 2.040 which implies that very low variations among the sample firms. The risk of sample firms ranged from 0 to 542.030 with a mean ratio of 25.185 times and standard deviation of 58.804 which implies that high variations among the sample firms. The growth of sample firms ranged from -0.704 to 4.815 with a mean ratio of 0.278 times and standard deviation of 0.644 which implies that very low variations among the sample firms. The size of sample firms ranged from -0.117 to 10.781 with a mean ratio of 6.979 times and standard deviation of 1.536 which implies that very low variation among the sample firms.

3.9 Regression Analysis

The strength of the relationship between the dependent variable return on assets and all the independent variables taken together of selected large scale IT companies and the impact of these independent variables on the profitability are given in table 7. Regression analysis is used to test the impact of dividend payout on selected explanatory variables relating to profitability, liquidity, leverage and firm characteristics of the large scale IT companies. As we mentioned in mode of analysis, a model was formulated and the results are summarized in the above Table 7.

Table – 7: Regression Model Summary of Large Scale IT Companies

Sl. No.	Model	Multiple R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F-Value	P-Value
1	Lintner	.786	0.617	0.595	616.078	1.925	28.129	.000a

Note: Dependent Variable: *Equity Dividend in period 't'*

The specification of the selected explanatory variables such as ROE, FCF, LIQ, LEV, Risk, Growth and Size in the above model revealed the ability to predict dividend payout ($R^2 = 0.617$). In this model R^2 value of above mentioned explanatory variables denote that 61.7 % to the observed variability. The remaining 38.3 % are not explained, because the remaining part of the variance in explanatory variables is related to other variables which are not depicted in the model.

An examination of the model summary in conjunction with ANOVA (F-value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. Model created by the researcher is significant at 5% level of significance. F value is 28.129 and respective P value is 0.00 which is statistically significant at 5 percent level of significance. In this case it reveals that only DIVP has a significant impact on NPT at 5 percent level of significance.

However, it should be noted here that there may be some other variables which can have an impact on profitability, which need to be studied. In addition to the above analysis Durbin-Watson test also carried out to check the auto correlation among the independent variables. The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non-autocorrelation. Model has the value is 1.925. This indicates that there is no auto correlation.

3.10 Overall Companies

Table – 8: *Correlation Test of Explanatory Variables – Overall IT Companies*

		Dividend Payout Ratio	Return on Equity	Free Cash Flow	Liquidity	Leverage	Risk	Growth	Size
Dividend Payout Ratio	R	1	.009	.031	.031	-.025	.481**	-.021	.073
	Sig.		.884	.612	.615	.683	.000	.735	.229
Return on Equity	R	.009	1	.235**	.048	-.063	-.035	.449**	.094
	Sig.	.884		.000	.428	.300	.569	.000	.123
Free Cash Flow	R	.031	.235**	1	.145*	-.080	.010	.016	.568**
	Sig.	.612	.000		.017	.192	.868	.799	.000
Liquidity	R	.031	.048	.145*	1	-.153*	.045	.132*	.090
	Sig.	.615	.428	.017		.012	.466	.030	.142
Leverage	R	-.025	-.063	-.080	-.153*	1	-.059	-.017	.093
	Sig.	.683	.300	.192	.012		.332	.780	.127
Risk	R	.481**	-.035	.010	.045	-.059	1	-.004	.011
	Sig.	.000	.569	.868	.466	.332		.952	.858
Growth	R	-.021	.449**	.016	.132*	-.017	-.004	1	0
	Sig.	.735	.000	.799	.030	.780	.952		0.28786
Size	R	.073	.094	.568**	.090	.093	.011	0	1
	Sig.	.229	.123	.000	.142	.127	.858	0.28786	

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The study findings showed positive significant relationship between dividend payout ratio and risk ($r = 0.481$, p value < 0.01). This implies that an increase in risk increase the company's dividend payout ratio. Secondly, there was a positive insignificant relationship between dividend

payout and return on equity among full scale companies ($r=0.009$, P value > 0.05). This implies that a unit increase in free cash flow increases dividend payment ratio. Thirdly, there was a positive relationship between dividend payout and liquidity among full scale companies ($r=0.31$, p value >0.05) but statistically insignificant. Fourthly liquidity and size ($r=0.31$, p value >0.05) and ($r=0.073$, p value >0.05) respectively were positive relationship found with dividend payout ratio which is to be statistically insignificant. Finally, Return on Equity (-0.005 , P value > 0.05) and Growth ($r=-0.030$, P value > 0.05) were negative relationship found with dividend payout which is found to be statistically insignificant.

Table – 9: Descriptive Statistics – Variables Used for Lintner and Other Models

Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Dividend Payout Ratio	270	11144.490	75.030	11123.567	65.601	672.396	16.370	268.632
Return on Equity	270	112.210	-10.090	102.120	15.524	14.863	1.876	6.172
Free Cash Flow	270	12949.560	-176.690	12772.870	398.171	1549.123	5.688	34.544
Liquidity	270	22.780	0.150	22.930	2.505	2.121	5.005	38.646
Leverage	270	22.880	0.000	22.880	0.498	1.557	11.404	159.814
Risk	270	759.730	0.000	759.730	26.049	65.616	7.776	73.534
Growth	270	5.693	-0.879	4.815	0.205	0.505	5.020	39.362
Size	270	10.898	-0.117	10.781	5.944	1.605	0.408	0.820

The dividend payout ratio of sample firms ranged from 75.030 to 11123.567 with a mean ratio of 65.601 times and standard deviation of 672.396 which implies that very high variations among the sample firms. The return on equity ratio of sample firms ranged from -10.090 to 102.120 with a mean ratio of 15.524 times and standard deviation of 14.863 which implies that low variations among the sample firms. The free cash flow ratio of sample firms ranged from -176.690 to 12772.870 with a mean ratio of 398.171 times and standard deviation of 1549.123 which implies that very high variations among the sample firms. The liquidity ratio of sample firms ranged from 0.150 to 22.930 with a mean ratio of 2.505 times and standard deviation of 2.121 which implies that very low variations among the sample firms. The leverage ratio of sample firms ranged from 0.00 to 22.880 with a mean ratio of 0.498 times and standard deviation of 1.577 which implies that very low variations among the sample firms. The risk of sample firms ranged from 0 to 759.730 with a mean ratio of 26.049 times and standard deviation of 65.616 which implies that high variations among the sample firms. The growth of sample firms ranged from -0.879 to 4.815 with a mean ratio of 0.205 times and standard deviation of 0.505 which implies that very low variations among the sample firms. The size of sample firms ranged from -0.117 to 10.781 with a mean ratio of 5.944 times and standard deviation of 1.605 which implies that very low variation among the sample firms.

Table – 10: Regression Model Summary of Overall IT Companies

Sl. No.	Model	Multiple R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F-Value	P-Value
1	I	.487	0.238	0.217	594.899	1.960	11.664	.000

b. Dependent Variable: Dividend Payout Ratio

The specification of the selected explanatory variables such as ROE, FCF, LIQ, LEV, Risk, Growth and Size in the above model revealed the ability to predict dividend payout ($R^2 = 0.238$). In this model R^2 value of above mentioned explanatory variables denote that 23.8 % to the observed variability. The remaining 76.2 % are not explained, because the remaining part of the variance in explanatory variables is related to other variables which are not depicted in the model. An examination of the model summary in conjunction with ANOVA (F-value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables.

Model created by the researcher is significant at 5% level of significance. F value is 11.64 and respective P value is 0.00 which is statistically significant at 5 percent level of significance. In this case it reveals that only DIVP has a significant impact on NPT at 5 percent level of significance. However, it should be noted here that there may be some other variables which can have an impact on profitability, which need to be studied. In addition to the above analysis Durbin-Watson test also carried out to check the auto correlation among the independent variables. The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non-autocorrelation. Model has the value is 1.960. This indicates that there is no auto correlation.

CONCLUSION

Dividend policy refers to decisions involving distribution or retention of profits. It is most important decision not only from the prospective of the company but also that of other stakeholders, creditors, Government etc. Dividend policy also helps the firm in making choice of distribution of its profits to its shareholders as a cash dividend and, if so, how much to pay and with what frequency. The main aim of this research is to find out the relationship between dividend payout and corporate profitability of selected IT companies in India. Based on the results, it could be found that the impact of dividend payout on corporate profitability measured by return on equity is positive and statistically significant for the whole sample while positive but insignificant relation is found for the dividend paying companies. The impact of dividend payout on profitability in terms of earnings per share was negative and significant after controlling for size, growth and leverage for the dividend paying companies where as an insignificant relation was reported for the whole sample.

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